

**BILL #** SB 1463

**TITLE:** tax deduction; sewer expenses

**SPONSOR:** Gould

**STATUS:** As Amended by Senate FIN

**PREPARED BY:** Marge Zylla

## FISCAL ANALYSIS

### Description

The bill would permit an individual who itemizes their income tax deductions to include residential sewer expenses from a non-rental property. The bill would be effective in tax year 2009.

### Estimated Impact

The bill's fiscal impact cannot be determined with certainty due to the range of interpretations of the phrase "residential sewer utility user fees." Using a set of simplifying assumptions, the bill may reduce individual income tax collections by \$(17.4) million beginning in FY 2010.

The Department of Revenue did not provide a cost estimate for the bill.

### Analysis

"Residential sewer utility user fees" are defined in the bill by reference to A.R.S. § 9-511.02 as "fees charged for the provision of sewer." Under this definition, residential sewer utility user fees could include monthly sewage bills, sewer hook-up fees, capital expenses for building sewer lines, and the cost of the removal of septic tanks in favor of a sewer system.

The residential sewer utility user fees differ greatly for rural and urban areas. Based on information supplied by 9 cities, monthly sewer fees can be approximately 3 times as much for rural residents as urban residents. For example, the average annual wastewater charge for the 7 most populated cities in Maricopa County, as per 2007 US Census data, weighted by number of households per city, is \$255.76. Outside Maricopa County, cities may have higher sewer charges. For example, Lake Havasu City and Bullhead City in Mohave County have a weighted average sewer user charge of \$614.26 annually.

According to census data from 2000, 88.2% of Arizona's population lives in urban areas. Using this data, if the Maricopa County and Mohave County average sewer fees are applied statewide, \$775 million in sewer fees are collected annually. These fees would then be adjusted downward for rental units, which represent 12% of all properties statewide.

In 2007, 60% of Arizona taxpayers itemized their reductions when filing taxes. Assuming that the percentage of taxpayers who itemize their reductions will not change and an average tax rate of 3.5%, the total level of the new deduction would be \$17.4 million.

As noted above, residential sewer utility user fees could also include items such as capital expenditures for building sewer lines. The one-time cost to connect to a sewer line for properties requiring on-lot construction ranges from \$5,253 to \$13,096 in Bullhead City. The one-time cost to connect to a sewer line for properties with an available sewer line is \$2,500 in Bullhead City. A Bullhead City representative stated that this cost will likely increase and that it is low compared to other cities in similar situations. Both of these types of costs vary greatly depending on new sewer and home construction. These charges could increase the estimated cost to the state, but due to their variability they are not included in the cost estimate.

### Local Government Impact

None